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SUBJECT: READY TO GAMBLE ON BIOFUELS IN BOLIVIA?

Classified By: EcoPol Chief Mike Hammer for reasons 1.4 (b) and (d).

Summary

¶1. (C) The potential for biofuel development in Bolivia is significant: land is abundant, fertile, and cheap; labor is plentiful (and employment demands great); and there is even an under-used pipeline to carry the fuel to a pacific port. Government rhetoric, lack of legal definitions, and potential for expropriation or random tax increases all coalesce to generally shelve investment plans. However, there are signs that the potential may be realized. Some investors are ready to take the gamble, some regional leaders are pointing the way, and internal debate is ongoing within relevant federal agencies. End Summary.

The Private Sector

¶2. (C) Bolivia currently has eight active sugar cane plants, with two exporting their alcohol production to Europe. The exported alcohol is only refined to about 96% purity (an additional refinement would be needed to turn this type of alcohol into fuel ethanol). Cristobal Rodas, President of the largest national sugar producer Guabira, said that it would be easy enough to squeeze the additional 2% of water out of the alcohol, but this way they avoid any chance that the government could classify their production as a hydrocarbon, and thus subject it to nationalization and/or additional taxes. Moreover, he believes that the market for the less pure alcohol is also sizable.

¶3. (C) Guabira also recently began construction of a US\$10 million sugar processing plant which, by using Brazilian technology and burning the sugar cane byproduct, will supply 14MW of power to the national grid (the plant will use an additional 2MW to power its operations). The plant is scheduled to begin operations September 2008. Cristobal Rodas hopes that by providing power to an over stressed electricity

grid, the new plant will be viewed favorably by the national government and may also help illuminate an additional benefit to ethanol production (Note: Guabira is also operating on the assumption that they are already here in Bolivia, so why not take advantage of the boom times and lack of foreign competition scared off by government rhetoric. Similar attitudes have been expressed in the both the transportation and consumer goods sectors. Guabira is one of the few companies, however, willing to invest in a productive asset. End Note).

14. (C) Currently, Guabira exports its ethanol production from Eastern Bolivia via the Paraguay river and Argentinean ports. What really excites Rodas is the possibility of utilizing an under-used petroleum pipeline to export ethanol via the Pacific port of Arica, Chile; he is not the only one.

Oscar Serrate, Vice President of Transredes (the pipeline operator), said that four companies had approached him regarding the pacific pipeline (currently used at only 30% of capacity). He said that the technical barriers to transporting ethanol were manageable and the company had an open offer to any producers. The most advanced project proposal came from Bethanol Energy Corporation, a Las Vegas based company which has secured an initial US\$120 million from private investors and a bank in Dubai. According to Reynaldo Suarez, the risk manager for Bethanol, the last hurdle for beginning the project is political risk insurance.

Suarez is working with the Overseas Private Investment Corporation (OPIC), but to date has received no guarantees. (Note: Ecoff has been told that currently OPIC is not considering any mining projects in Bolivia. End Note). Risk insurance is available through private markets, but Suarez says that it is prohibitively expensive at the moment, but

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they may have to consider it in the future.

The Government

15. (C) In January 2005, a decree was issued to create a biodiesel program in Bolivia and add a minimum of 2.5% biodiesel to all diesel sold in the country by January 2007. Regulation and legal outlines for the industry were to follow in 90 days: no regulation has yet been proposed and there seems to be no movement in that direction. President Evo Morales made explicitly clear at his UN Assembly address that he is not interested in taking food out of Bolivian mouths and placing it in the tanks of American cars. This is the government's official position but, according to Andres Jimenez Villegas, Head of the Export Unit at the Ministry of Production and Micro Enterprises, debate is intense within the ministry itself as the benefits of biofuels for Bolivia become increasingly clear.

16. (C) At a regional level, support is also growing. The Prefect in Santa Cruz recently announced that it would invest US\$2 million in three pilot plants for the production of biodiesel, principally using soy beans. The region is the heart of resistance toward Movement Toward Socialism (MAS) plans though, and initiatives that favor regional soy producers are unlikely to receive any central government support.

Summary

17. (C) Evo Morales himself appears dead set against developing Bolivia's potential as a biofuels producer. By taking this position, which appears to be deeply rooted in the ideological positions originating in Cuba and Venezuela, he is setting himself against strong market forces. We expect the private sector will continue to push the boundaries set by the government and will try to demonstrate

the benefits of the new industry. Economic logic would dictate a strong move to capitalize on the advantages Bolivia enjoys, but economic logic is not currently in favor in the Presidential Palace. End Summary.
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